To : Hamish Maxwell

Fest
1984 t 70.9 (t 1.60)
1983 65.9
1982 49.9

cc: TG, WTM, GEK, JRH, LR, CW, MJ, F.H. Dulles, (PM EEC); R.W.Murray, T.M.Kearns, L.Pollak, R.L.Snyder, K.Haley (PMI)

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FLASH FOR WEEK ENDING MARCH 25, 1983

I. LEGAL

1. E.E.C.

A letter from J. Ferry was received on March 21st informing us that the draft agreement submitted on January 21st would not bring to an end the alleged infringements of the competition rules. Particular concern was pointed at the joint control of RTH, and through it of RI.

A meeting was held in London on March 24th, between the PM and RG lawyers to review the situation. It was agreed that a meeting with Ferry is necessary in order to clearly establish the exact meaning of his letter. Subsequent steps can then be determined after this clarification. The meeting is tentatively planned for Wednesday, March 30th.

2. Germany

a) A meeting to discuss the latest appeal brief was held March 22-23 in Munich. Legal advisors Heidenhain, Hirsch and Axster were joined by FHD, WTM and B. Roos of PMG. The brief is considered to be in good shape and a final review is planned for April 12-13 in Frankfurt (submission date is April 15).

b) The two economists, Berg and Muller, were also in Munich to discuss their draft expert opinions. It appears that they have developed some useful arguments to assist our case and a final decision on whether to submit either or both opinions will be taken on April 12-13.

c) FHD and WTM will meet with Gutowski on March 28 in Munich, to bring him up-to-date on the latest developments in the German market. It is planned that he will then update his earlier opinion by April 12, so that a final decision can be taken on whether to submit this also.

d) Following the poor draft opinion prepared by RI's UK QC, Mr. Lauterpacht, on the impact of the FCO's action under UK law, it was decided that PM (Coward Chance) will instruct a leading UK legal authority, prof. Brownley, to prepare an opinion by April 12. The availability of a valid UK opinion is an essential part of the legal defense in Berlin as well as necessary for lobbying efforts in various places.

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e) A meeting has been arranged with the State Department in Washington on April 12th to continue discussions re. the possibility of a formal US intervention against the FCO's extension of its extra-territorial jurisdiction.

f) Count Lambsdorff is expected to be re-appointed Economics Minister in the new W. German Government.

II. OPERATIONS

1. Visit to RI factory, Belfast Northern Ireland

The planned visit of PM personnel to RI factory at Carrickfergus has been postponed at our request due to GEK's unavailability. A new date will be fixed shortly.

2. Brinkmann production of Chesterfield

During February, Brinkmann produced 34.2 million Chesterfield and relaunched the brand as a low-price proposition in the German market. (Sales of this brand in 1982 were 8.6 million.)

III. PLACING

1. Jordan

M.J. Roux advised that RI are planning to enter into a Joint Venture in Jordan with local businessmen. RI would have 60% of the project with an initial investment of £ 750,000 which could later increase to £ 2,000,000.

RI's transit business at moment is only 2 million per month, and it is felt that this is the only way to get into market.

2. South Africa

H. Schedel visited Rembrandt and met P. Taljaard and K. Buys. Both expressed strong interest in a distribution arrangement for Marlboro which they would handle as an imported product. A further meeting will take place in Zurich on April 22.

3. Nigeria

Following the visit to PMN by RI people in early February, Maitland (RI) sent a letter to G. Courtier on February 22 saying that they will now collate their findings and contact PM in Lausanne to see if there is "any common ground for co-operation". No such contacts have been made until now.

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4. Trademarks

A meeting to discuss various trademark matters was held in London on March 18 between M.J. Roux, J. du Plessis, A.C. Van As (all of Rembrandt), M. Thompson, J. Campbell (both RI), with EH, FHD and WTM. A summary of the meeting is as follows:

A. U.S. License Agreement

Several points previously in dispute were resolved and there remain only three issues which require further discussion and definition:

- licensee developed advertising
- reasonable efforts to market products
- Marlboro/Merit in S. Africa

The objective is to have prepared a draft contract fully agreed between the parties, ready to be signed once our EEC legal problems are resolved.

B. Dunhill

M.J. Roux outlined the basic points to be covered by an agreement between RI and PM, which were: royalty $ 0.60/1000 indexed; $ 35,000 per month distribution fee (which ceases after 11 years); market share targets of 0.5% in 5 years, 1% in 10 years, and a rolling 5 year duration.

C. Cartier

M.J. Roux stated that a sub-license, RG to PM, could be agreed on royalty terms of $ 0.55/1000 indexed, duration until December 31, 2000, and with minimum royalty payments of $ 125,000 in 1984 increasing at $ 25,000 p.a. until 1989 (to reach $ 250,000) and thereafter indexed to average selling prices.

Roux was informed that, in previous discussions, it had been agreed that PM would only be responsible for part of any shortfall in royalty minimums, ie. if worldwide volumes were insufficient PM would be liable for half the shortfall to make up the minimum. PM would have to consider the changed terms.

D. Chesterfield - S. Africa

M.J. Roux proposed that an agreement for Chesterfield should be concluded without waiting the resolution of the EEC legal issues. He had two suggestions:

(i) extend the agreement to 50 years with indexing of the royalty starting immediately;

(ii) extent for 20 years from 1994 with indexing to start from 1994.

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Roux was advised that a review of this agreement without waiting until the EEC issues were resolved may involve conditions relating to minimums, performance criteria, realistic royalty, etc., just as in their proposals for Cartier and Dunhill.

o/s E. TEI

Related to the above trademark issues is PM's open offer to takeover the TEI operation in Atlanta, which would be basically not viable without the sales volumes of the Rembrandt and Dunhill brands. This offer was repeated. The Rembrandt and RI people indicated that they had not had time to fully consider this but will get back to PM on this.

F. Next Meeting

It was agreed to pursue all the above issues at a meeting on April 18 and/or 19 in London. M.J. Roux subsequently advised that those dates may not be convenient, and that other dates will have to be arranged.

5. Satin Trademark

Mr. Schippers of Rembrandt met with V. Tinucci in New York and Washington to discuss Rembrandt's apparent loss to Lorillard of its Satin trademark in USA. It would appear a usage programme now will be of no help in the present situation and RC will have to decide their next legal step. ?

IV. FINANCIAL

1. RI forecast for year to March 1984

M.J. Roux advised that the RI forecast for the year to March 1984 projects a net profit of £ 70.9 million. This compares with 1983 1983 forecast of £ 65.9 million and 1982 actual of £ 49.9 million. A rate of exchange of £ = $ 1.60 was assumed in the forecast.

Regards,

E. Houminer

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